

7 December 2018

Eyeopener

Budget surplus after November

Risk aversion after disappointing US data
Finance minister signals budget surplus after November
Złoty slightly stronger thanks to rise of EURUSD
Bonds gained from poor global sentiment
Today US non-farm payrolls report

Since the beginning of the Thursday session, trading on global markets followed the same pattern as during the two previous days. Stock indices fell noticeably through most of the day, positively impacting bonds. FX market saw only slight fluctuations and it was ADP report from the US labour market (not as positive as expected) that weakened the dollar which, in turn, was favourable to CEE currencies and further strengthened bonds. As regards other data released in the USA later that day, only ISM for services surprised to the upside. First day of OPEC talks did not bring a reversal of a downward trend in crude oil prices (Brent price fell below US\$60/bbl). The German industrial production accelerated in October in y/y terms, but less than expected. A stalemate over the US spending bill has continued, however the Congress passed a bill that ensures financing for government institutions through the next two weeks, giving some space to reach a final compromise.

Since the beginning of the session **EURUSD** oscillated around 1.134, however the release of ADP report triggered an upward move to 1.14. Nevertheless, factors such as slightly better data from services sector, postponement of the "government shutdown" to 21 December and, consequently, a rebound on stock markets pushed EURUSD back near 1.1360-1.1370, in the late afternoon. Today, the government monthly labour market report will be released and may set the direction for EURUSD for the end of the week (we do not expect any major changes, though). From a broader perspective, EURUSD has fluctuated in a horizontal trend for four months, slightly above this year's minimum which is 1.121 from mid-November.

EURPLN broke 4.29 in the first part of the session but at the end of the day was slightly below the opening level at 4.28 thanks to EURUSD' jump after the US data. Session low was at 4.277. USDPLN fell to 3.755 from 3.79 and rebounded to 3.76 in the evening. Despite a noticeable drop of global stock indexes this week, EURPLN is holding fairly close to the 4.26 support level.

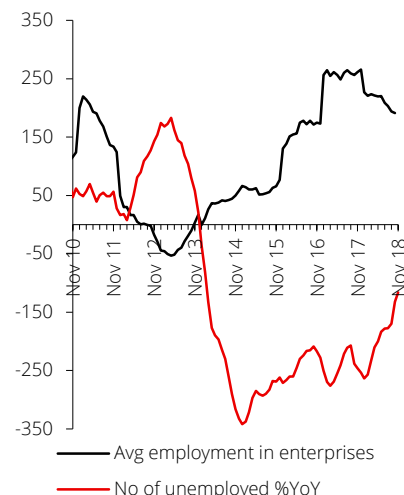
In the case of the **other CEE currencies**, the ruble was under pressure of the falling oil price. Russian inflation did not help despite it showed a rise to 3.8% y/y in November from 3.5% bringing the rate hike closer. Looking from a broader perspective, since late November, USDRUB is holding in a narrow range (65.91-67.53). Yesterday, the forint lost marginally vs the euro amid lower demand for risky assets while the koruna remained stable. In the late afternoon, weaker dollar supported the koruna and forint; the ruble stabilized.

On the **domestic interest rates market**, IRS and bond yields fell by 3-5bp, mostly on the belly and the long end of the curve, fuelled by core markets' strength. Bunds and UST yields slid by 3-6bp, driven by European stock markets sell-off and poor US data. 10Y UST yield temporarily dipped by 9bp while awaiting the extension of financing by Congress and rebounded after the bill passed. Today we expect Polish yields to rebound, following the UST yields.

The **Finance Minister Teresa Czerwińska** said that the central budget recorded a surplus after November and maintained her declaration the fiscal deficit will not surpass 0.6% of GDP in 2018. According to Dziennik Gazeta Prawna daily, the government plans to reach as good fiscal metrics as possible this year in order to avoid any conflict with the European Commission regarding pace of reduction in the structural deficit. Thus, according to the daily, the Ministry will take no actions aiming at relieving the next fiscal year, like acceleration of VAT returns. If this is the case, then it is very probable that the deficit will be lower than 1% of GDP at the year-end. Meanwhile, the budget amendment, approved by the Sejm yesterday, earmarked PLN11bn of this year's budget savings in expenditure for spending on other purposes (the government suggested to spend only PLN8bn). Additional means will be allocated to the National Health Fund (NFZ), construction of local roads, help for farmers hurt by the drought. The amendment will make it harder for the finance ministry to reach the declared 0.6%.

According to Labour Ministry, the **registered unemployment rate reached 5.8% in November** vs 5.7% in October. The monthly rise in unemployed number (14.3k) was the highest in November since 2014, which confirms that positive trends on the labour market have been waning. Despite the Ministry's estimate, we still predict the final jobless rate to be at 5.7%, as the stat office's numbers about the unemployed are usually a bit lower than Ministry's flash estimates.

Labour market trends (in thous. y/y)



Source: GUS, Ministry of Labour, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2808	CZKPLN	0.1654
USDPLN	3.7636	HUFPLN*	1.3252
EURUSD	1.1374	RUBPLN	0.0563
CHFPLN	3.7913	NOKPLN	0.4417
GBPPLN	4.8048	DKKPLN	0.5736
USDCNY	6.8820	SEKPLN	0.4181

*for 100HUF

Last session in the FX market 06/12/2018

	min	max	open	close	fixing
EURPLN	4.279	4.294	4.283	4.279	4.2919
USDPLN	3.750	3.791	3.774	3.758	3.7844
EURUSD	1.132	1.141	1.135	1.139	-

Interest rate market 06/12/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.53	-1	15 lis 18	OK0521	1.784
PS0424 (5L)	2.43	-6	15 lis 18	PS0424	2.626
WS0428 (10L)	3.00	-5	15 lis 18	WS0428	3.226

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	-1	2.88	-2	-0.23	0
2L	1.86	-2	2.91	-5	-0.14	0
3L	1.97	-5	2.89	-6	-0.02	0
4L	2.09	-6	2.87	-7	0.13	0
5L	2.20	-7	2.87	-6	0.27	0
8L	2.45	-7	2.90	-5	0.64	-1
10L	2.59	-7	2.93	-4	0.85	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.35	-8
T/N	1.52	8
SW	1.55	1
2W	1.59	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.82	1
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.73	0
6x9	1.75	-1
9x12	1.78	-2
3x9	1.80	-1
6x12	1.82	-2

Measures of fiscal risk

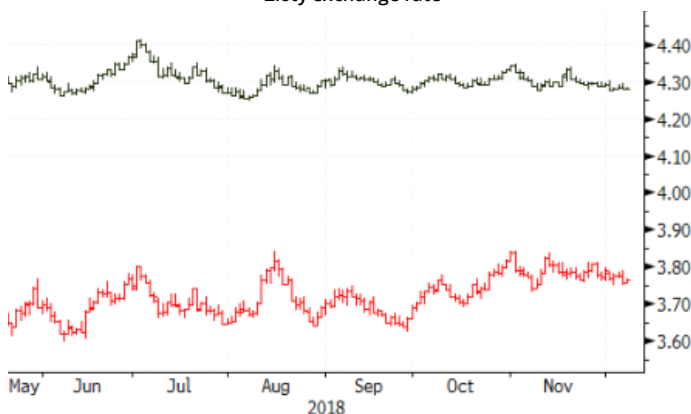
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.77	-5
France	25	1	0.43	0
Hungary	116	1	2.85	1
Spain	65	4	1.22	0
Italy	221	8	2.94	-2
Portugal	64	0	1.57	-1
Ireland	25	0	0.64	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

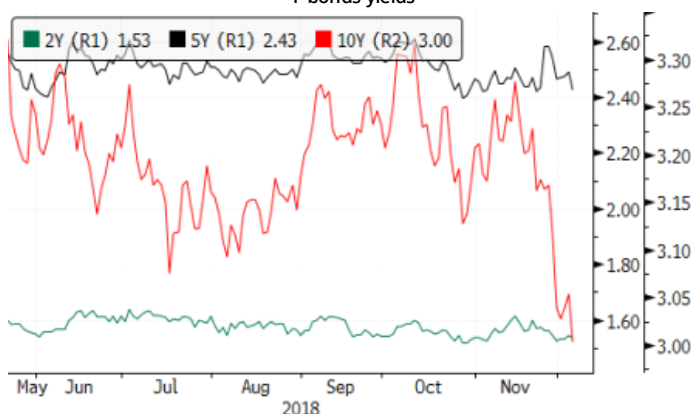
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

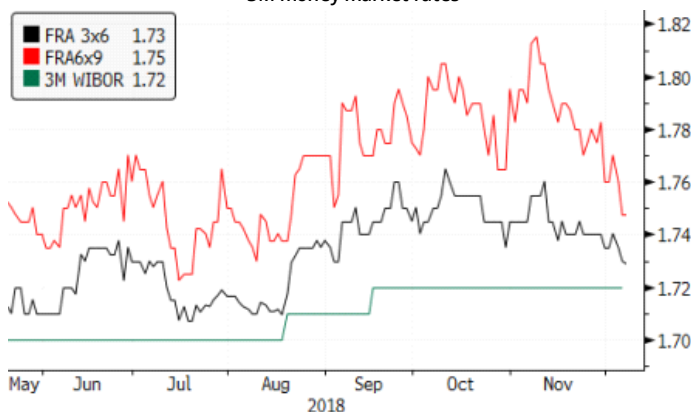
Zloty exchange rate



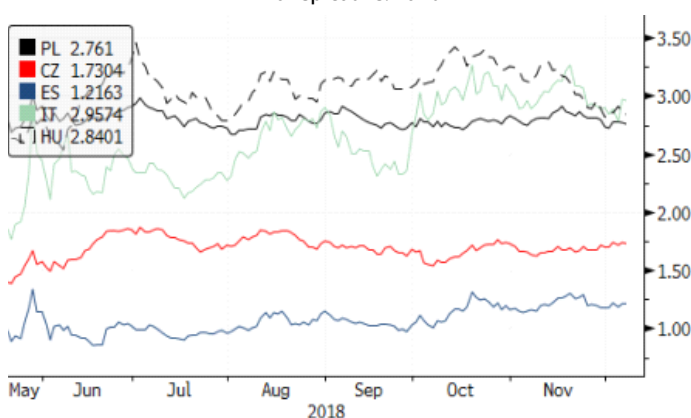
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (30 November)								
08:00	DE	Retail Sales	Oct	% m/m	0.4	-	-0.3	-0.3
09:00	CZ	GDP SA	3Q	% y/y	2.3	-	2.4	2.3
10:00	PL	Flash CPI	Nov	% y/y	1.6	1.5	1.2	1.8
10:00	PL	GDP	3Q	% y/y	-	5.1	5.1	5.1
11:00	EZ	Flash HICP	Nov	% y/y	2.0	-	2.0	2.2
11:00	EZ	Unemployment Rate	Oct	%	8.0	-	8.1	8.1
MONDAY (3 December)								
09:00	PL	Poland Manufacturing PMI	Nov	pts	50.4	51.1	49.5	50.4
09:55	DE	Germany Manufacturing PMI	Nov	pts	51.6	-		51.6
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	51.5	-		51.5
16:00	US	ISM manufacturing	Nov	pts	58.0	-		57.7
TUESDAY (4 December)								
No important events								
WEDNESDAY (5 December)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
02:45	CN	Caixin China PMI Services	Nov	pts	50.9	-	53.8	50.8
09:00	HU	GDP	3Q	% y/y	4.8	-	4.9	4.8
09:55	DE	Markit Germany Services PMI	Nov	pts	53.3	-	53.3	53.3
10:00	EZ	Eurozone Services PMI	Nov	pts	53.1	-	53.4	53.1
11:00	EZ	Retail Sales	Oct	% m/m	0.2	-	0.3	-0.5
20:00	US	Fed Beige Book						
THURSDAY (6 December)								
08:00	DE	Factory Orders	Oct	% m/m	-0.4	-	0.3	0.1
14:15	US	ADP report	Nov	k	195	-	179	225
14:30	US	Initial Jobless Claims	week	k	225	-	231	235
16:00	US	ISM services	Nov	pts	59.0	-	60.7	60.3
16:00	US	Durable Goods Orders	Oct	% m/m	-2.4	-	-4.3	-4.4
16:00	US	Factory Orders	Oct	% m/m	-2.0	-	-2.1	0.2
FRIDAY (7 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	0.3	-	-0.5	0.1
09:00	CZ	Industrial Production	Oct	% y/y	5.4	-	6.7	-0.6
11:00	EZ	GDP SA	3Q	% y/y	1.7	-		1.7
14:30	US	Change in Nonfarm Payrolls	Nov	k	198	-		250
14:30	US	Unemployment Rate	Nov	%	3.7	-		3.7
16:00	US	Michigan index	Dec	pts	97.0	-		97.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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